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SUBJECT: ROSATOM REORGANIZATION BILL SAILS THROUGH DUMA

Summary

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Sensitive But Unclassified; please protect.

[¶1.](#) (SBU) The Duma passed unanimously November 13 a bill to restructure Russia's civil nuclear sector. In place of the current Rosatom Agency, the bill establishes the "Rosatom Corporation." Its mandate will be to coordinate and manage nuclear policy in all sectors. A centerpiece of Rosatom Corporation will be "Atomenergoprom," the vertically integrated state-owned company set up earlier this year encompassing all aspects of the civil nuclear industry. The bill grants Atomenergoprom the right to keep profits.

Rosatom Corporation will also assume state functions: it will manage the nuclear weapons complex, oversee nuclear research and development, and supervise nuclear and radiation safety. The state budget would continue to fund non-commercial activities. Duma and Rosatom contacts expect Putin to sign the bill before the end of [¶2007](#). Whether Rosatom Director Kiriyenko will move over to head Rosatom Corporation is an open question. End Summary.

Rosatom (aka "The Corporation")

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[¶2.](#) (SBU) On November 13 the Russian State Duma passed 374-0, in its third and final reading, the "Federal Law on the State Corporation for Atomic Energy (Rosatom)." President Putin had introduced the bill. Following Federation Council (upper house) approval, Duma and Rosatom contacts expect Putin to sign the bill before the end of the year. Restructuring Rosatom required the Duma to amend 18 federal laws, including budget, civil, and criminal codes. Once the bill becomes law, the current Rosatom will transform into the Rosatom Corporation over a three-year transitional period. Rosatom contacts tell us they expect significant changes in the first months of [¶2008](#).

Rosatom's Functions

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[¶3.](#) (U) According to the bill, the main responsibilities of the Rosatom Corporation will be:

--To pursue state policies;  
--to assure uniform governance in the area of commercial atomic energy uses;  
--to provide for the sustainable operation of the nuclear energy industry entities and the nuclear weapons complex;  
--to assure nuclear and radiation safety and legal and normative regulations in this sphere; and  
--to carry out a long-term program of nuclear industry development.

[¶4.](#) (SBU) In a recent interview, Rosatom Director Sergey Kiriyenko likened the new Corporation's structure to that of the USSR's "legendary" Ministry of Medium Machine Building (Minsredmash). He

noted that like Minsredmash, Rosatom Corporation would be "a management body that is both the authorized state body and the business entity directly responsible for the implementation of large-scale nuclear power engineering development projects approved by the state." Vladimir Kuchinov, Director of Rosatom's International Department, told us November 14 that like Minsredmash, the Corporation would encompass the whole nuclear sector. However, a fundamental difference would be that the civil nuclear industry sector, under the state-owned Atomenergoprom set up earlier this year, would operate on a for profit basis in market conditions.

#### Rosatom Corporation as Legal Successor

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15. (SBU) The bill establishes that Rosatom Corporation will be the legal heir of Rosatom. The bill gives the Corporation the right to represent Russia in initiating, negotiating, and concluding international agreements. Rosatom Corporation will also be responsible for meeting GOR commitments in the areas of peaceful uses of nuclear energy, nonproliferation, and security and protection of fissile materials.

#### Financing

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16. (SBU) The Rosatom Corporation and its subordinate institutions will have the right to retain profits. This is a break with past practice. Previously, profits generated by Rosatom enterprises have been transferred back to the state budget. According to some estimates, Rosatom earns several billion dollars annually in the nuclear trade. There is a special provision in the bill prohibiting the reduction of the level of current budget allocations to Rosatom until 2010. Thereafter, the budget will continue to support the

MOSCOW 00005408 002 OF 002

state functions assumed by the Corporation.

#### Property

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17. (SBU) The GOR will transfer all property which is now managed by Rosatom but owned by the state to the Corporation. This includes property owned by Atomenergoprom (which operates nuclear power reactors), 15 nuclear weapons facilities, 11 R&D and 7 higher education institutions, 7 nuclear and radiation safety organizations, corresponding buildings and land as well as stores of special materials like natural uranium and plutonium. According to some estimates, the capitalization of Rosatom Corporation could thus start at \$40-50 billion.

#### Management: Under Presidential Control

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18. (SBU) Under the bill, the President approves the long-term program of the Corporation's activities. A Director General and a Supervisory Council manage the Corporation. The President appoints the Director General, who serves as chief executive. The Supervisory Council will consist of nine members, the aforementioned DG (ex officio) and eight other representatives of the President and the GOR. The President appoints and can remove the chairman of the Supervisory Council.

#### Corporate Salaries

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19. (SBU) Salaries in commercial areas of the Corporation will be on a corporate scale. Salaries at Atomenergoprom are already significantly higher than those for comparable positions at the existing Rosatom.

#### Goal: A Commercial Footing

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110. (SBU) A strong proponent of the bill in the Duma's Energy Committee is Valentin Ivanov, a United Russia member and former Vice

Minister of Rosatom's predecessor, MinAtom. Ivanov emphasized to us the importance of putting Rosatom on a commercial footing to promote competitiveness. Ivanov highlighted in particular separating out the commercial functions -- Atomenergoprom -- from the state functions. Also key will be financing. Ivanov underlined the importance of the Rosatom Corporation being able to retain profits rather than turn them back to the budget. Ivanov admitted to us that the goals Kiriyenko has said for nuclear expansion -- including construction of up to two new reactors a year -- are over-ambitious. However, for Russia to achieve even half of that, Rosatom needed such a reorganization.

Uncertainty at Rosatom

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¶11. (SBU) Rosatom's Kuchinov reiterated to us that the existing structure of Rosatom was not compatible with a market economy. It was necessary to separate civilian and military elements. Kuchinov was frank, however, in saying he did not know how well it was all going to work. He noted that the term "corporation" to define an entity which had state functions was confusing -- in Russian and in English. He predicted that the first three months of 2008 would be an unsettled time at Rosatom.

Comment

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¶12. (SBU) With Putin's imprimatur, the bill made it through the Duma without opposition. Putin may have wanted the new structure in place before his departure so he can name the head of the new Corporation. As Kuchinov noted, Rosatom staff are braced for the institutional upheaval to come in 2008 -- some contacts are already moving to new posts. Commercial pay scales will improve the terms of service, especially for those at the top. Whether Kiriyenko moves to be head of Rosatom Corporation is an open question. Having shepherded the restructuring, his appointment would be logical.

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